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November 24, 2015

Green Mountain Care Board
State of Vermont
89 Main Street, Third Floor, City Center
Montpelier, VT 05620

Re: Agriservices Association Premium Rate Filing
Effective Date: 12/1/2015 to 11/30/16
SERFF #: MVPH-130236588

The purpose of this letter is to provide a summary and recommendation regarding the Agriservices filing submitted by MVP Health Insurance Company (MVPHIC) for groups enrolling or renewing in December 1, 2015 and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. Agriservices Association is a grandfathered association of farmers (comprising of two divisions: Dairymen and ASA) offering 5 health plan options to its members. This filing demonstrates the premium rate development adopted by MVPHIC for its business with Agriservices. The proposed premium rates in this filing are for one full year, with an effective date of December 1, 2015.

2. Agriservices uses a Minimum Premium Plan (MPP) funding arrangement, wherein Agriservices pays claims up to the maximum expected claim liability (set at 115% of expected claim liability), while MVPHIC provides administrative services and stop loss insurance for individual claims in excess of $200,000. The composite gross required premium is split into two components for MPP funding arrangements: Expected Claim Liability component and the Retention and Stop Loss Fee component.

3. MVPHIC establishes the expected claim liability and maximum expected claim liability for each plan offering as well as the retention and the stop loss fees used in rate development. The fixed retention and stop loss fees (minimum premium) are billed to Agriservices monthly while actual claims are billed to Agriservices up to the aggregate maximum expected claim liability.

4. The proposed rates in this filing will affect approximately 1,220 covered lives.

5. The aggregate proposed rate increase is 27.4% as compared to December 2014 rates. The

proposed rate increase varies by plan, division, and contract tier, ranging from a minimum of 16.8% to a maximum of 40.7%.

6. The substantial rate increase is driven primarily by actual trends far exceeding expectations. The observed trend between the 2014 experience period and the 2015 experience period is 30.4% for medical and 55.8% for Rx (total observed trend of 32.6%). This outpaces the premium increase from the same periods of less than 6%. The experience period medical loss ratio for members who are still active was 109.2%. A substantial rate increase is necessary to reduce this loss ratio back to sustainable levels.

Standard of Review

Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board in determining whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the law, and is not excessive, inadequate, or unfairly discriminatory.

Summary of the Data Received

MVPHIC provided the methodologies used in Medical/Rx premium rate development. Exhibit A illustrates the large group experience rating formula employed by MVPHIC. Exhibit A1 illustrates the expected claim liability[1], retention, and stop loss fees by product offering. Exhibit B illustrates the derivation of proposed plan-specific premium rates based on the expected claim liability developed in Exhibit A1. Exhibit B1 illustrates the proposed premium rate increase by benefit plan option. MVP provided other details pertinent to its actuarial assumptions/experience driving the rate change request. This includes supplemental exhibits comprising historical high cost claims, claims experience by plan, contract conversion factor derivation, and experience claims by paid month.

Company's Analysis

1. *Rate Development:* Exhibit A illustrates the experience rating formula. MVPHIC utilized incurred claims for the period from May 1, 2014 through April 30, 2015 and paid through June 30, 2015 as the base period experience. Historical claims constituted 15,513 member months and were assigned 100% credibility.

   The base experience period claims minus any claims in excess of $200,000 were projected forward to the midpoint of the rating period using an annual effective medical trend of 6.6% and an annual Rx trend of 17.5%. The effective medical trend reflects MVPHIC's paid trend and is derived from its proposed allowed cost trend rates and the impact of cost share leveraging[2] .

   Adjustments to the projected claims were made to account for stop loss fee equal to 2.7% (same as the assumption utilized in the prior rate filing for this group) of projected medical claims. No adjustment was made for anticipated changes in demographics. The projected cost was further increased to reflect expenses, taxes, and assessments.

[1] MVP is updating the benefit relativities of plan offerings to calculate the expected claims PMPM for each plan option. The re-sloped expected claims in Exhibit A1 are illustrated to be revenue neutral to the expected claim liability PMPM in Exhibit A.

[2] Leveraging is the result of the fixed nature of deductibles and copays causing the carrier to bear a greater portion of the cost of the medical inflation. Leveraging assumed in this filing is 1.3% for high-deductible plans and 1.0% for non high-deductible plans.

The calculated gross required PMPM in Exhibit A is split into two components: Expected claim liability and Retention and stop loss fees.

The proposed expected claim liability PMPM was converted to a per contract rate using single conversion factor[3] (derived using experience period membership) and compared to the current composite claim liability to determine the projected increase in claim liability. The proposed single conversion factor was based on the experience period enrollment. The resulting single conversion factor is 1.223, Exhibit A1 demonstrates the expected claim liability will increase by 30.2% from the current claim liability.

In past filings, the requested rate changes have been level across all plan options, despite a need for differing rate changes by plan option. The rate relativities were changed in the approved December 2014 filing. According to MVP's modeling at the time, the change in rate relativities resulted in very high rate increases for some plans. In order to mitigate this, the relativities were phased in over two years. This is the second year of that process, and the proposed rate relativities in this filing represent MVP's current best estimate. With the new benefit relativities, the proposed rate change by plan is as follows:

Proposed Rate Change by Product	Option 1 VP019L	Option 2 VP017L	Option 3 VP020L	Option 4 VPHD-03L	Option 5 VEHD-02L
Single	17.0%	16.8%	17.0%	40.6%	26.8%
Double	17.1%	16.9%	17.0%	40.7%	26.9%
Family	17.1%	16.9%	17.0%	40.7%	26.9%

The substantial rate increase is driven primarily by actual trends far exceeding expectations. The observed trend between the 2014 experience period and the 2015 experience period is 30.4% for medical and 55.8% for Rx (total observed trend of 32.6%). This outpaces the premium increase from the same periods of less than 6%. The experience period medical loss ratio for members who are still active was 109.2%. A substantial rate increase is necessary to reduce this loss ratio back to sustainable levels.

2. *Medical Trend:* The Company is requesting a paid medical trend of 6.6%. The unit cost medical trends and the deductible leveraging factors used in this filing are consistent with the filed and approved 3Q/4Q 2015 experience rated large group premium rate filing (MVPH-129877690). Consistent with previous filings, the medical trend reflects a 0% utilization change combined with known and assumed price increases from MVPHIC's provider network. MVPHIC opines that based on regression analysis of its utilization data in the past, the predictive ability of the historical utilization trends was weak and not reliable. The projected medical trends broken down by year and medical category can be seen below:

[3] The conversion factor adjusts premium that is developed on a PMPM basis to be on a tiered (single, double, family) basis. This adjustment is necessary because the premium on a PMPM basis is an average over all adults and children. However, the tiered premiums require the base premium to be for a single adult.

Medical Category	2015 Allowed Trend	2016 Allowed Trend	Total Annual Allowed Trend
Inpatient	6.7%	6.7%	6.7%
Outpatient	5.9%	5.9%	5.9%
Physician	3.5%	3.5%	3.5%

MVP proposed using combined allowed trend factors that use the distribution of cost underlying the 3Q/4Q large group filing and the impact of cost share leveraging, which results in overall annual effective paid trend of 6.6%. This annual trend factor was applied for 19 months to trend experience from the experience period to the rating period.

3. *Rx Trend:* The Company has requested an annual paid trend of 17.5%. MVPHIC analyzes its pharmacy data by drug category (Generic, Brand, Specialty). Annual trend factors by drug category were supplied by MVPHIC's pharmacy vendor and did not account for MVPHIC's Vermont specific book of business, given the partnership with this vendor is new. MVPHIC's rationale for using unadjusted trends includes the following:
   - The new PBM (contracted on January 1, 2015) does not have enough MVPHIC data to provide a credible Rx trend forecast based on MVPHIC's experience.
   - The historic trends do not reflect the constantly changing Rx market and do not account for drugs coming off patent, changes in average wholesale price, new drugs being released to the market and price competitiveness amongst generic and brand drug manufacturers.

Rx Category	2015 Allowed Trend	2016 Allowed Trend	Total Annual Allowed Trend
Generic	5.9%	7.6%	6.9%
Brand	8.1%	10.5%	9.5%
Specialty	31.6%	25.2%	27.8%

MVP proposed using combined allowed trend factors that use the distribution of cost underlying the 3Q/4Q large group filing and the impact of cost share leveraging, which results in overall annual effective paid trend of 17.5%. This annual trend factor was applied for 19 months to trend experience from the experience period to the rating period.

4. *Administrative Expenses*: Exhibit B illustrates the expected claim liability to develop proposed premium rates for Agriservices by adding other components such as retention, stop loss fees, and additional expenses for services (such as accident coverage) provided by Agriservices. The total expense assumption is 15.9% or $70.74 PMPM. The breakdown of the administrative expenses includes:
   - General administrative expense: 9.75% or $43.32 PMPM
   - VT Vaccine Assessment: 0.6% or $2.67 PMPM
   - Premium taxes: 2.0% or $8.89 PMPM
   - ACA Insurer tax: 2.0% or $8.89 PMPM
   - Transitional reinsurance fee: 0.5% or $2.37 PMPM
   - Patient Centered Research Fee: 0.04% or $0.17 PMPM
   - Contribution to Surplus: 1.0% or $4.44 PMPM

L&E Analysis

1. *Rate Development:* We reviewed MVPHIC's rate development methodology. The base period appears to be reasonable and appropriate and incorporate sufficient runout time for claims to become completed.

   We note that the sudden increase in experience claims PMPM on this block could indicate a lack of credibility. However, the 15,513 member months in the experience period qualifies as fully credible under MVPHIC's large group rating manual, and we agree that this amount of member months should be considered fully credible. We do not believe that reducing the credibility of the Agriservices experience would increase the accuracy of the claims cost projection, and, as such, we do not recommend changing the credibility assumption at this time. However, if membership decreases or experience continues to be volatile, a reduction in credibility may be necessary in future filings.

   Reducing the base experience period claims by claims in excess of $200,000 and accounting for the stop loss fee appears to be reasonable and appropriate and consistent with prior filings.

   We note that MVPHIC did not adjust the experience period claims for anticipated changes in demographics (age and gender) and utilized experience period contract distribution to calculate the projected single conversion factor. The experience period single conversion factor was 1.223, and the experience period demographic factor was 1.184. Because some members are known to have left the plan and the block is closed, we believe it is more appropriate to base these calculations on the most recent enrollment data available. If June 2015 enrollment is used, the single conversion factor reduces to 1.219, and the demographic factor decreases to 1.178. This results in a decrease in the proposed rate change of approximately 0.9%. We recommend that the Company use the updated enrollment data to calculate the single conversion factor and the demographic factor.

   While the overall rate increase requested for this filing is high, the observed claim trends have outpaced the premium increases. This can also be seen in the high loss ratio of 109.2% from the experience period for members who are still active.

   The range in rate increases results from the "phasing in" of the new plan relativities that began in last year's filing. The relativities are based on MVP's commercial business across New York and Vermont, which is more credible than Agriservices experience by plan. In subsequent filings, we recommend that MVPHIC revisit the expected claim relativities by plan in order to reevaluate the accuracy of the claim projection. We find MVPHIC's adjustment to benefit relativities to be reasonable and appropriate at this time.

   The Standard of Review includes consideration of the affordability of the proposed rate increase. To that end, we believe it necessary to comment on the proposed range of the rate increases, including the 40.7% rate increase for plan VPHD-03L. This 40.7% rate increase is undoubtedly a significant increase, caused by the combination of bad experience and the phasing-in of new benefit relativities. For single coverage, the proposed Agriservices rates are noticeably higher than comparable rates on the Exchange. For example, the single rate for Agriservices plan VEHD-02L is $80 higher per month than a similar Exchange plan with a lower deductible. However, the Agriservices family rate for the same plan is slightly lower.

While the relativity change pushes the increase up on the VPHD-03L plan, it reduces the necessary increase on the other plans, making their rate increase lesser. The proposed benefit relativities reduce the rate increases to the majority of members (over 700 of about 1,200), while being actuarially sound. Because of the observed high claims, a decrease in the proposed rate for one plan would need to be offset by an increase in the rate for another plan to be actuarially sound and maintain revenue neutrality. To maintain the viability of this program, any modifications to the proposed rates should be revenue neutral in aggregate.

With the recommended modifications to the single conversion factor and the demographic factor, we find the rate development methodology to be reasonable and appropriate.

2. *Medical Trend:* The Company is requesting a paid medical trend of 6.6%. We find the utilization assumption of 0% to be consistent with recently approved medical trends (filed in 3Q15/4Q15 experience rated large group rate filing) and to be reasonable and appropriate.

   The unit cost medical trends and the deductible leveraging factors used in this filing are consistent with the prior filing; however, the assumed trends by medical category were blended using the distributions for the large group EPO/PPO block rather than the Agriservices experience. Upon request, MVP calculated the annual paid medical trends using the Agriservices-specific experience. The calculation of the difference is as follows:

	Proposed Annual Paid Trend	Revised Annual Paid Trend
Medical	6.6%	6.4%

   We recommend that MVPHIC use the experience of the Agriservices block for the projected trend, since this block is considered fully credible. This results in a decrease of 0.2% to the requested rate change.

3. *Rx Trend*: The Company is requesting a paid medical trend of 17.5%. We consider MVPHIC's approach of using Rx trends from its vendor without accounting for its Vermont specific block of business to be a limitation on the reasonableness of their proposed Rx trend assumption.

   The deductible leveraging factors used in this filing are consistent with the 3Q/4Q 2015 filing, as this group is being renewed during that period; however, the assumed trends by Rx category were blended using the distributions for the large group EPO/PPO block rather than the Agriservices experience. Upon request, MVP calculated the annual paid Rx trends using the Agriservices-specific experience. The calculation of the difference is as follows:

	Proposed Annual Paid Trend	Revised Annual Paid Trend
Rx	17.5%	17.1%

   We recommend that MVPHIC use the experience of the Agriservices block for the projected trend, since this block is considered fully credible. This results in a decrease of 0.1% to the requested rate change.

4. *Administrative Expenses*: The total expense assumption is 15.9% or $70.74 PMPM. The breakdown of the administrative expenses is shown below with a comparison to the assumptions used in the prior filing:
   - The general administrative expense of 9.75% ($43.32 PMPM), premium taxes of 2.0% ($8.89

PMPM), ACA insurer fee of 2.0% ($8.89 PMPM), and the PCORI fee of 0.04% ($0.17 PMPM) have remained unchanged from the prior filing.

- The VT Vaccine Assessment of 0.6% ($2.67 PMPM) was incorporated into the expenses in this filing.
- There was a reduction in the Transitional reinsurance fee from $3.80 PMPM to $2.37 PMPM (0.5%) due to changes in the federal requirements from the prior filing.
- The Contribution to Surplus reduced from 2.0% to 1.0% ($4.44 PMPM) from the prior filing.

We reviewed actual administrative expense ratio for MVP's large group market, as provided in the Supplemental Health Care Exhibit for the 2010-2014 time periods and note that the historical expense ratio decreased sharply in 2014:

Year	Expense Ratio
2010	11.3%
2011	11.0%
2012	10.0%
2013	10.8%
2014	9.6%

The proposed contribution to surplus is 1.0%. In the last two orders, the Board has reduced the proposed contribution to surplus from 2.0% to 1.0%. We recommend that the solvency analysis performed by DFR be considered when making changes to this assumption.

We find the administrative expense assumptions to be reasonable and appropriate.

Recommendation

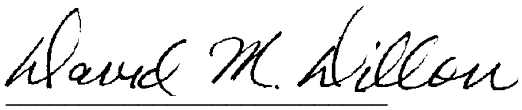
After modifications, L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory. Therefore, L&E recommends that the Board make the following modifications:

- Calculate the single conversion factor and demographic factor based on June 2015 (or more recent) enrollment distribution. This change would reduce the requested rate change by approximately 0.9%.
- Weight the assumed allowed cost trends by Agriservices medical and Rx claims experience. This change would reduce the requested rate change by approximately 0.3%.

The above changes would decrease the requested rate change from 27.4% to approximately 25.9%.

Sincerely,

Jacqueline B. Lee, FSA, MAAA
Vice President
Lewis & Ellis, Inc.



David M. Dillon, FSA, MAAA, MS
Vice President & Principal
Lewis & Ellis, Inc.

ASOP 41 Disclosures
The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations4, promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct5, to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

Identification of the Responsible Actuary
The responsible actuaries are:

- Jacqueline B. Lee, FSA, MAAA, Vice President at Lewis & Ellis, Inc. (L&E).
- David M. Dillon, FSA, MAAA, MS, Vice President & Principal at Lewis & Ellis, Inc. (L&E).

These actuaries are available to provide supplementary information and explanation. The actuaries also acknowledge that they may be acting as an advocate.

Identification of Actuarial Documents
The date of this document is November 24, 2015. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is November 5, 2015.

Disclosures in Actuarial Reports

- The contents of this report are intended for the use of the Green Mountain Care Board. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the health insurance issuers whose rate filings were reviewed. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Board in assessing whether to approve, modify, or disapprove the rate filing.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by the issuers for reasonableness, but we have not audited it. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.
- We are not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.
- The findings of this report are enclosed herein.

Actuarial Findings
The actuarial findings of the report can be found in the body of this report.

[4] The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

[5] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

Methods, Procedures, Assumptions, and Data
The methods, procedures, assumptions and data used by the actuary can be found in body of this report.

Assumptions or Methods Prescribed by Law
This report was prepared as prescribed by applicable law, statues, regulations and other legally binding authority.

Responsibility for Assumptions and Methods
The actuaries do not disclaim responsibility for material assumptions or methods.

Deviation from the Guidance of an ASOP
The actuaries have not deviated materially from the guidance set forth in an applicable ASOP.